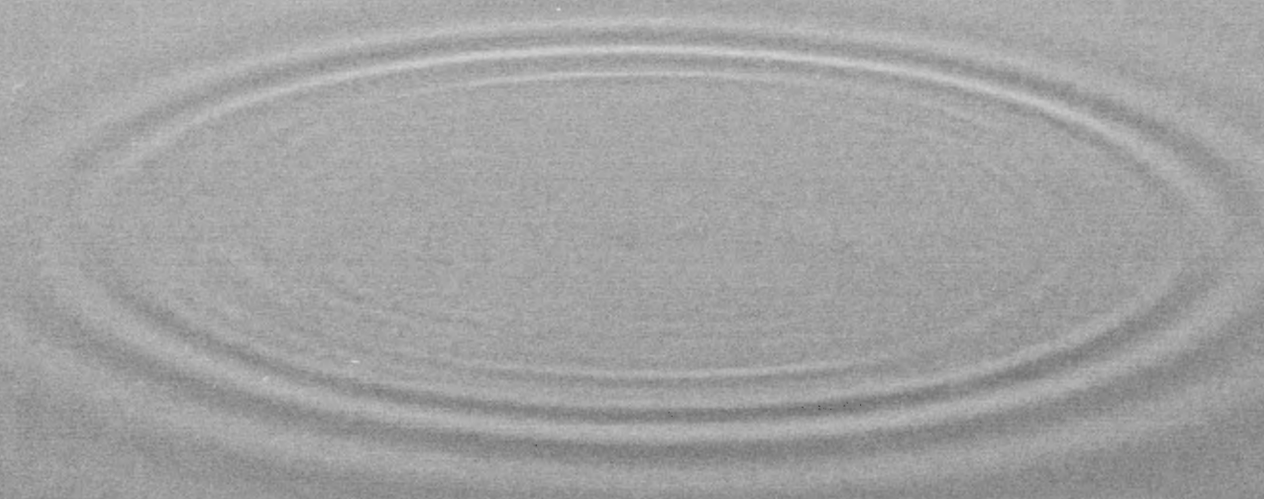
INSPIRING WHAT COMES NEXT

NOVA SCOTIA BUSINESS INC. 2009/2010 RESULTS



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Nova Scotia Business Inc.

Opportunity. Growth. Prosperity.

Sustainable and meaningful business development is inspired by many minds, requires many hands and affects many lives. And it often begins with one, solitary step.

NSBI's activity in 2009/10 illustrates the many ways we've assisted companies across the province. Our collaboration is the first step. What you'll see in this year's annual report is the ripple effect - how one transaction, one activity inspires what comes next.

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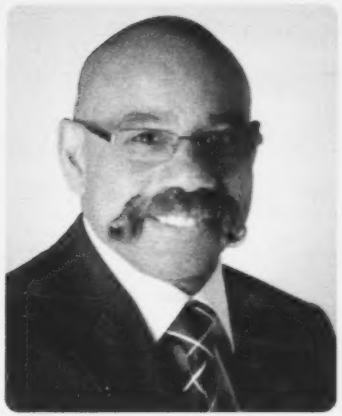
Nova Scotia Business Inc.

Opportunity. Growth. Prosperity.

LETTER FROM THE MINISTER



Since its creation in 2001, Nova Scotia Business Inc. (NSBI) has been carrying out its mission to deliver client-focused business solutions that result in strong, sustainable economic growth and prosperity for the Province of Nova Scotia.

Nova Scotia Business Inc. exists to be hands-on and proactive, working with local businesses, Economic and Rural Development, and other partners across the province. The agency is also designed to be the province's international agent, attracting companies and growing sectors and trade markets.

In the face of the global economic downturn that continued to challenge Nova Scotia's growth, we came together strengthening existing partnerships and building new ones in 2009/10.

Led by its private-sector board of directors, the crown corporation continued to work closely with the Department of Economic and Rural Development, Labour and Workforce Development, Immigration, other partner agencies and levels of government during 2009/10, and worked closely with local and international companies in an effort to create good jobs and grow the economy.

Home-grown successes and companies attracted to Nova Scotia are providing high-paying, world-class career opportunities, and they are generating millions of tax dollars and building a stronger economy. Some of the growth from this past year is highlighted in the 2009/10 annual report.

With the work of agencies like NSBI, our people and businesses continue to compete successfully at home and around the world.

The Honourable Percy A. Paris
Minister of Economic and Rural Development

INSPIRING WHAT COMES NEXT

Several important themes marked the 2009/10 fiscal year.
Economic pressure. Global competition. Shifting demographics. Change.

Economic recovery is well underway, but it's unstable. Greece, Europe, and the US are all struggling to get back on track. The financial crisis that marked 2007 and 2008 affected not only Wall Street and stock markets, but the global economy and its many interconnected moving parts.

Bernie Madoff's actions had consequences far beyond affected investors. Regulators and boards are now demanding better oversight through third-party service providers. This is a real opportunity for Nova Scotia. Take for instance Castle Hall Alternatives, a leading provider of operational due diligence, which joined Halifax's growing financial services sector this year.

Increased competition from emerging markets in South America, Asia and India – whose productivity levels are high and costs low – are changing the way we think about our manufacturing base. Success in this sector is no longer being defined by what we do with our hands. It's all about how we use our heads – how and where we add value in today's knowledge economy.

A big economic step forward for all Nova Scotians was the expansion of Korea-based Daewoo Shipbuilding and Marine Engineering (DSME) to Pictou County. This was a bold but necessary move for the province in becoming a global competitor in green energy. Domestically, companies like LED Roadway Lighting are making a name for themselves as world leaders.

This year was all about raising the bar and giving back – not only across the province and across industries, but within NSBI's walls. Expanding business activity in Nova Scotia is about more than just the numbers in this report; it's about working together as a team to support issues that affect us all. Through our new employee-based volunteer "Community Team" and "Green Team", we were able to make small but significant changes – supporting literacy programs, for instance, and finding ways to be a greener organization.

NSBI's own Leadership Development Program is all about fostering leadership within our walls and also in the broader community. As an employer, I strongly believe in offering my team opportunities to build on their leadership skills and further expand their career paths – not just within NSBI but within Nova Scotia.

Read through our 2009/10 annual report. I think you'll see the headway we've made in maintaining and gaining ground at home and in international markets both from a trade and an investment perspective. We can't sit idle. It's incumbent upon all of us to not only be ready, but to also inspire what comes next.

Stephen Lund
President & Chief Executive Officer

Business Financing / Venture Capital

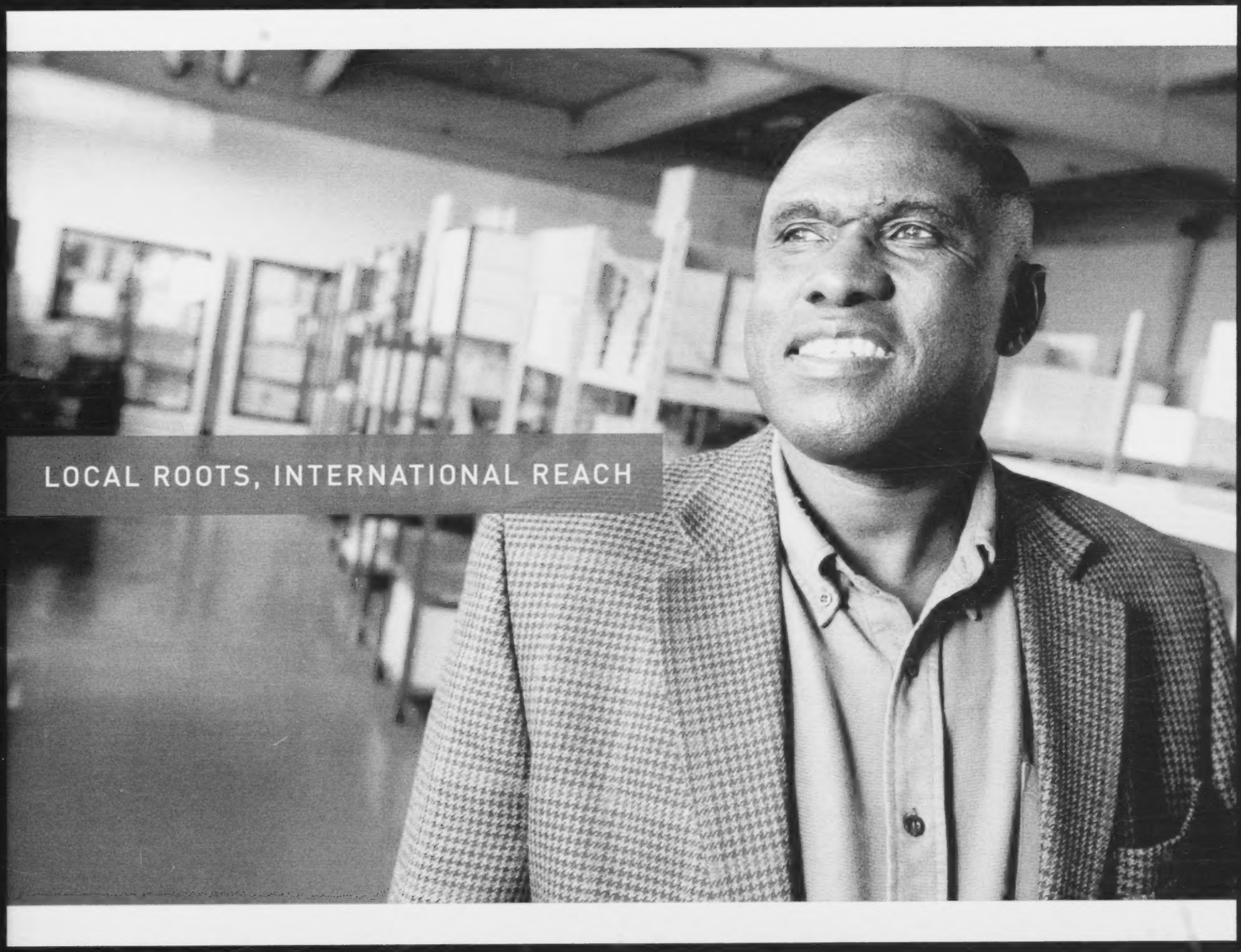
Enligna Canada	Middle Musquodoboit
Northsyde Processing	North Sydney
MacLeod Resources	River Denys
JHS FishProducts	Tusket
DSM Telecommunications	Dartmouth
Old Orchard Inn	Wolfville
E.B.F Manufacturing	Yarmouth
Stark Oil Purification Systems	New Glasgow
River's Bend Wood Products	Antigonish
Harry Freeman and Son**	Greenfield
Copol International	North Sydney
Atlantic Hardchrome	Dartmouth
ABCO Industries	Lunenburg
Nautel	Hackett's Cove
Biomedica Diagnostics	Windsor
Unique Solutions Design	Dartmouth
LED Roadway Lighting	Halifax / Amherst
Origin BioMed	Halifax
Tech Link International Entertainment	Sydney
Blue Wave Seafoods*	Port Mouton
Mersey Point Fish Products*	Port Mouton
Islandfresh Seafood*	Brier Island

* material amendments
** Company received a loan and guarantee

Investment Attraction

Aecon-Fabco	Dartmouth
SheepDogInc.ca	Halifax
IMP Contact Centres	Windsor
JHS FishProducts	Tusket
Longtail Studios	Halifax
Royal LePage Relocation Services Limited	Halifax
Precision Biologic	Dartmouth
Blue Ocean Contact Centers	Halifax
/n Spro Inc	Halifax
NewPace Technology Development Inc.	Bedford
ROINS Holding Limited	Halifax
Entreprise Castle Hall Alternatives Inc.	Halifax
DSME Trenton*	Trenton

* No funds committed by NSBI. Project management in the attraction of this investment over an 18-month period.


LOCAL ROOTS, INTERNATIONAL REACH

Innovation, risk-taking and talented employees are drivers of business growth and success. Many local companies are selling their products and services internationally resulting in more jobs and exciting new opportunities for Nova Scotians. - **Pat Ryan, Vice-President & Chief Operating Officer, NSBI**

Dr. Abdullah Kirumira
Internationally-Recognized Inventor, Life-Saver

Call him the Robin Hood of Nova Scotia's biotechnology industry. Dr. Abdullah Kirumira, founder and CEO of Windsor, NS-based BioMedica Diagnostics Inc., has developed a unique business model that redistributes wealth and medical diagnostics technology from the world's richest countries to its poorest.

As a kid growing up in Uganda, Dr. Kirumira heard from his elder siblings – most of whom are physicians – the challenges of practicing medicine without affordable diagnostics support.

So as a biochemistry professor at Acadia University in Wolfville, Dr. Kirumira focused his research on developing diagnostics tools for some of the most pressing health problems on his native continent. With a team of student researchers, he ultimately developed the world's first rapid acting HIV test.

His firm, BioMedica Diagnostics, develops and sells reagents used for diagnosing such illnesses as thrombosis and heart disease. The proceeds of this line of reagents offsets the costs of his "Lab in a Box" and "Medical Village" technology – complete diagnostics tools for cash-strapped clinics in developing countries of Africa and South America.

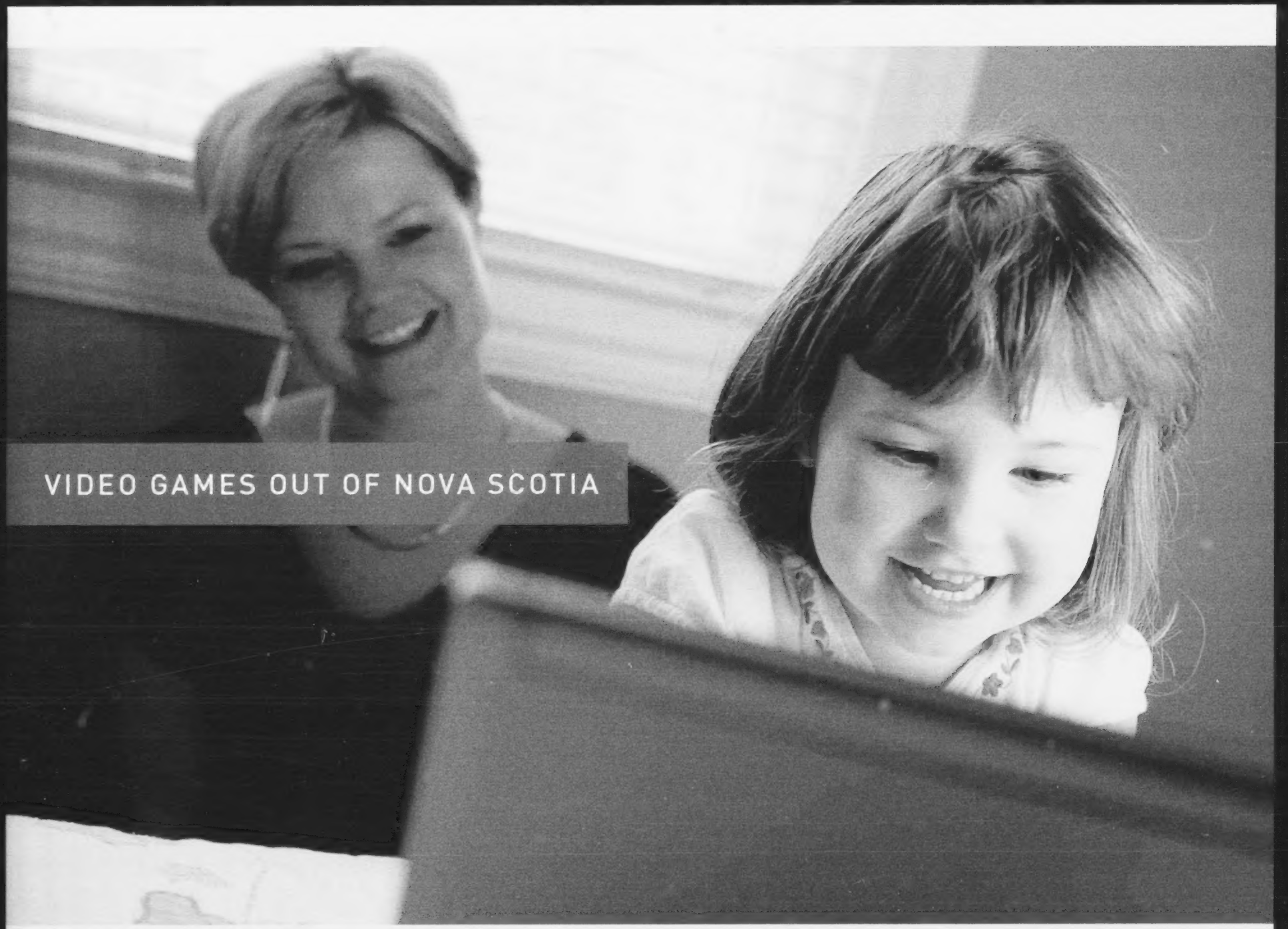
Dr. Kirumira says locating in Nova Scotia has been central to his success. "Business development partners such as NSBI support the growth of technology companies like mine," he says. "We also have access to well-educated staff who can contribute to an entrepreneurial firm from the start."

Julius Kanyamunyu
International Deal Maker

Julius Kanyamunyu says it didn't take long for his prospective clients in Africa to see the value of Dr. Kirumira's technology. "These labs offer the complete diagnostics package for an affordable price," he says. "The technology eliminates the guesswork for doctors. They went from being able to perhaps diagnose four or five illnesses to 150 with 95% accuracy."

Erin Kennedy
Driven Opportunist,
Nova Scotia Ambassador

Erin Kennedy says the opportunity to work with an internationally-recognized scientist-turned-entrepreneur like Dr. Kirumira, and to be part of a company whose work is empowering physicians to accurately diagnose and treat hundreds of illnesses, is "hugely rewarding." "I'm committed to helping grow this company and this industry - here in my home community."


VIDEO GAMES OUT OF NOVA SCOTIA

A new specialized, industry-mentored game development degree at Acadia University is one way we're supporting the growth of the gaming and interactive media sector. Our long-term goal is the same as many educational institutions in the province: to produce world-class graduates that will attract industry leaders and encourage entrepreneurial start-ups here at home. - **Danny Silver, Director, Jodrey School of Computer Science, Acadia University**

Anna MacDonald
Pre-Schooler, Video Game Player, Munchkin

She's the size of Dora the Explorer, smart as a whip, a computer whiz and all of four years old.

Meet Anna MacDonald, an Oakfield, NS preschooler who represents perhaps the first generation of Nova Scotia youngsters to practice their dexterity, listening, reading and technological skills on high-profile computer games programmed in their very backyards.

Anna logs onto an interactive Creativity Centre on Nickelodeon's NickJr.com site, listens to the online directions, selects her favourite cartoon (Yo Gabba Gabba), and begins using her mouse to colour an onscreen picture. And while, at just four, it's hard for Anna to comprehend that the world-famous cartoon characters she interacts with onscreen – including Max and Ruby and The Backyardigans – are brought to life by a Nova Scotia firm, TheREDspace, the significance isn't lost on her mom, Kelli.

"Anna will grow up with the knowledge that some of her favourite computer games are programmed right here in Nova Scotia," she says. "It's a great way to introduce your child to the possibilities that exist here for them."

Matthew Doucette
Math Prodigy, Computer Whiz, Award-Winning Video Game Developer

Matthew Doucette says the Yarmouth location for his and his brother's video game company is what has given Xona Games its edge. "In a larger centre, we'd be a drop in a pond. But by staying close to our roots, we've managed to stick out enough to get the attention, recognition and support that helped take us to the next level."

Stephen MacDonald
Artist, Design Guru

For years, Stephen MacDonald, art director for Longtail Studios, dreamed of finding an opportunity to practice his craft as a video game art director in his home province of Nova Scotia. That opportunity came early in 2010 when the prestigious game developer set up shop in Halifax.

BOLD MOVES = NEW OPPORTUNITIES

This DSME partnership will not only create clean and green jobs for Nova Scotians while helping to grow the provincial economy, it will bring the former TrentonWorks plant back to life. This will lead to a brighter future for the people of Trenton and surrounding communities. - **Premier Darrell Dexter on the day of the DSME announcement on March 5, 2010**

Sean Murray
Hometown Boy, Big World Thinker

Sean Murray, Nova Scotia business leader and one of 13 directors on NSBI's board, runs Advocate Printing & Publishing founded more than a century ago - in 1891. Continuous technological investments, including a recent $10 million enhancement to its printing processes, has sealed Advocate's position as Atlantic Canada's largest independent printing firm and Pictou's biggest employer. But ask Murray about the key to his family firm's longevity and he's quick to respond: disruptive change.

"You can't afford to rest on your laurels," he says. "Having the foresight to invest in existing resources in order to leverage them in new ways is what keeps a company and a community ahead of the curve."

Murray is excited about the partnership announced between Korea-based Daewoo Shipbuilding & Marine Engineering (DSME) and the Province of Nova Scotia. Through this joint venture, DSME will locate its North American production centre for wind turbine towers and blades in the former TrentonWorks railcar plant.

"This is a significant turning point for Pictou County," Murray says. "This project will transition the traditional manufacturing facility into a progressive operation driven by knowledge, innovation and the green economy." Now that's change worth believing in.

Rene Cornish
Small Town Visionary

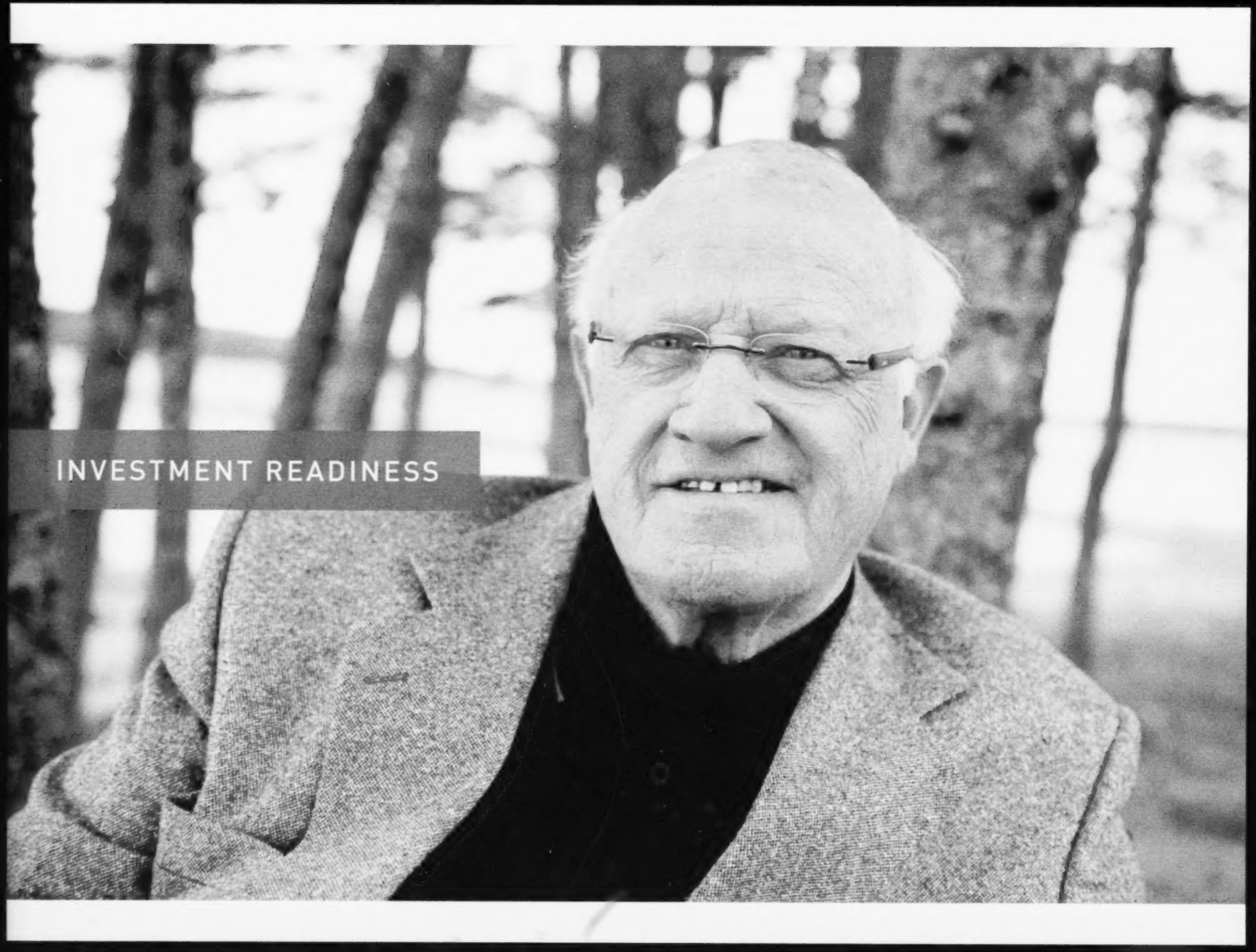
Rene Cornish's roots had been intertwined with TrentonWorks. Cornish's grandfather emigrated from Russia in the early 1900s to help build the plant, and eventually started a bakery and general store just across the road.

"We're thrilled, not only for what this means for our business, but for our customers, many of whom worked at TrentonWorks," says Cornish. "The future looks bright again."

Barry Zwicker
Team Player

For Barry Zwicker, president and CEO of Scotian WindFields Inc., community and energy are inextricably linked.

In the past, he wasn't able to source locally produced wind turbines or components. The recent decision to locate DSME's wind turbine manufacturing facility in Trenton means renewable energy producers may have the opportunity to buy local.


INVESTMENT READINESS

Working collaboratively with regional partners, NSBI is helping people in regions across Nova Scotia identify, support, and create conditions to promote and retain investment. - **NSBI's 2010 /11 Business Plan**

Don MacDonald
Community Advocate

Don MacDonald didn't realize how much he'd be involved in community affairs when he moved to Sheet Harbour to retire five years ago. "Businesses were diminishing and young people were moving away," says the transport manager at construction giant Municipal Group. "It was a beautiful community, but it was suffering. We needed to do something as a community to make Sheet Harbour more attractive."

So when he heard that NSBI was organizing a committee that would enlist the brainpower of community members to improve the utility of the Port of Sheet Harbour, and in the process, attract new industry and businesses to the area, MacDonald was quick to volunteer his considerable expertise.

At the time, the Port was in MacDonald's words, "extremely underutilized." Marketing and promotions were minimal, it had only a single major user, and the attached industrial park struggled to attract tenants.

As a result of the committee's work, Sheet Harbour businesses, citizens and partners now have a stronger understanding of both the Port's advantages as a strategic asset, as well as the types of businesses the community should attract and sustain. And most importantly, says MacDonald, the community has a self-made vision for the future. "We can look ahead five, ten years and see what's possible and achievable as a community. We're giving businesses and young people a reason to stay and a blueprint to thrive."

Dan Dooks
Connector, Facilitator,
Asset Mapper

In close partnership with a committee comprised of community expertise, NSBI's Dan Dooks works to understand local strengths, resources and opportunities. "Ensuring these assets are well promoted and used to their full capacity creates jobs and sustainable economic growth – not only for the local community, but for the province as a whole."

Dan Gibson
Port Advocate,
Business Leader

A deep, ice-free harbour, sound infrastructure and proximity to the airport, Halifax and the centre of offshore activity, have all helped propel Sheet Harbour as a location of choice for Shaw & Shaw operations. "It's been an excellent place to do business."

GIVING BACK

There are many ways employers and employees can give back to their communities. In my case, employers taking on co-op students like me give them an opportunity to pay it forward, and at the same time provide a powerful opportunity to build my skills so when I graduate school, I'll too be ready to give back. - **Trish Reike, Co-op Student, NSBI**

Raymond Rashed
Career-Builder, Youth Advocate

Shortly after graduating with a finance degree from McGill University in 2003, PEI-native Raymond Rashed looked east for opportunity. "Halifax is a vibrant city, I saw lots of diversity and development here, and I knew it was a place where I could thrive." Rashed quickly landed a job with Scotiabank where he is now a district banking manager working closely with the company's vice-president to support 26 branches and their clients in Nova Scotia.

Giving back to the city he lives in is important to Rashed, and inspired his decision to join the board of Fusion Halifax, an organization for young Halifax residents who want to make their city a better place to work, live, play – and stay. In his role on Fusion's People Factor action team, Rashed and his co-volunteers help develop skills in young professionals, as well as strengthening their ties with the city's employers. "It's not just about living in a city and having a good career. It's about how you use your experience and connections to make the city more welcoming and attractive to other young professionals," he says.

Of course, Rashed says there's also a huge personal payoff in volunteering. "I've developed skills and connections that I've been able to apply directly to advancing my own career," he says. "Giving back is always a win-win."

Glen Bates
Community Supporter,
Trainer of Talent

"What sets Nova Scotia apart for us is that we have access to a large pool of qualified university and community college graduates." In fact, between 2009 and 2010, the company hired more than 30 community college and university graduates. Hands-on training programs provide these young professionals with the skills and training they need to hit the ground running.

Marcie Trudeau
Constant Learner

Marcie Trudeau came to the insurance industry with lots of enthusiasm, a solid education, but little formal training. Now that she's settled into her role as a claims adjuster, Trudeau is taking an opportunity to give back to the company, and the community it serves. "Volunteering for RSA's charitable initiatives has made me feel great about myself, and the company I work for."

MESSAGE FROM THE CHAIR OF THE BOARD

"It's the kind of business development that touches all parts of the world."

The board of directors at NSBI provides guidance and governance to the agency's activities. By living and working in communities all over this province, all 13 directors see firsthand the connection between a strong economy and a vibrant community. It shapes the work we do on behalf of Nova Scotians.

The board of directors saw valuable business development in 2009/10 - from one corner of the province to the other. It's the kind of business development that touches all parts of the world.

Nova Scotia applauded the growth of JHS FishProducts in Tusket, Yarmouth. The company is taking fish parts that would not normally be used in North America and turning it into an edible commodity using drying machinery. JHS is then exporting

Doug Hall, Chair, NSBI's Board of Directors

THE YEAR IN REVIEW

APRIL 2009 – In partnership with ACOA, NSBI coordinates a multi-sector trade mission for six Nova Scotia companies to attend the New England-Canada Business Council's 10th Annual US/Canada Technology Forum in Ottawa.

MAY 2009 – The leading expert in custom-fit technology, Unique Solutions Design aggressively moves to deploy scanners and finalize contracts with some of the world's largest retailers. NSBI supports its growths plans with $2 million in equity financing.

JUNE 2009 – NSBI joins Literacy Nova Scotia on the greens for the Peter Gzowski International Golf Tournament and raises $60,000.

JULY 2009 – In partnership with ACOA, four new Nova Scotia exporters attend the In-Market Export Education program in Boston to learn about exporting their products and services to the U.S.

AUGUST 2009 – MacLeod Resources of River Denys, NS, uses a term loan from NSBI for equipment and working capital as it quarries unique red and blue-grey marble in Cape Breton.

SEPTEMBER 2009 – North Sydney-based packaging and manufacturing firm, Copol International Ltd. plans to increase competitiveness and improve productivity over the next four years with assistance from NSBI.

the dried fish products to southern Nigeria where it's considered a dietary staple.

We saw expansions from home-grown technology start-ups like NewPace, a software development company, and SheepDogInc., Canada's first certified Google Apps provider. Longtail Studios, a New York-based video game developer, joined our growing digital media sector. These creative and innovative companies are creating the jobs of the future – today.

The companies in NSBI's venture capital portfolio continued to take smart business risks in 2009/10. Origin BioMed's unique product provides pain relief for the symptoms of diabetic neuropathy. Now poised for the next big step, NSBI's long-standing support of this innovative company has helped bring several million dollars in new, private-sector investment to the province.

Despite global uncertainty, Nova Scotia held its ground – and here are a few snapshots of NSBI's activity in 2009/10. Our balanced approach to business development was a driving factor in the province's economic stability, and will continue to play a role as we inspire what comes next.

In February, I – along with the NSBI team attended the NASSCOM India Leadership Forum. As an ambassador for this province, the event - drawing close to 2,000 people –strongly positioned Nova Scotia on the world stage. Our presence on the ground in India sent a clear signal that this province continues to be open for business.

Percy Paris, Minister of Economic and Rural Development

OCT 2009 – With NSBI's support, SheepDogInc.ca plans to establish itself as a key service provider for Google Apps, within the global Cloud Computing marketplace.

NOVEMBER 2009 – Lunenburg's ABCO Industries Ltd. upgrades its facilities and lowers production costs through improvements to infra-structure and equipment, with NSBI support.

DECEMBER 2009 – Home-grown service provider, Blue Ocean Contact Centers, expands and hires in Halifax with assistance from NSBI. The company provides customer care and support services for various clients in industries like telecommunications, tourism and hospitality.

JANUARY 2010 – NSBI, in partnership with the Atlantic Provinces and ACOA, embarks on a multi-sector trade mis-sion to Panama with a group of four businesses.

FEBRUARY 2010 – NSBI and Percy Paris, Minister of Economic and Rural Development, attend the NASSCOM India Leadership Forum.

MARCH 2010 – NSBI client, Nautel Limited, a global leader in radio frequency technology, makes investments to increase manufacturing productivity and diversify its products through research and develop-ment in Hacketts Cove.

NSBI Corporate Scorecard

Promote the growth of new and existing businesses in Nova Scotia

MEASURE	TARGETS 2009-10	ACTUAL 2009-10
# of clients introduced to new markets or further advanced in existing markets	225	287
Client-reported actual and forecasted export sales (note1)	$100 million	$132.9 million

Provide access to capital for new/existing businesses in Nova Scotia

MEASURE	TARGETS 2009-10	ACTUAL 2009-10
# of Business Financing / Venture Capital projects authorized (note 2)	15	18
# of companies that undertake productivity enhancements utilizing the Strategic Investment Fund (payroll rebates)	10	5
Impaired loan ratio	15% or less	13.5%
Leverage ratio of partner/client: NSBI	Ratio of 1:1	1.02 to 1

Attract leading edge sustainable business investment in Nova Scotia

MEASURE	TARGETS 2009-10	ACTUAL 2009-10
# of projects committed by investment attraction clients	12	13
Average gross salary of new jobs forecasted to be created by investment attraction clients (note 3)	$42,500	$46,466

Overall performance

MEASURE	TARGETS 2009-10	ACTUAL 2009-10
Forecasted average portfolio return on investments utilizing Strategic Investment Fund (payroll rebates)	40% or greater	56.9%
Total forecasted new and retained payroll (note 4)	$120 million	$135.4 million (max)

NSBI Corporate Scorecard (continued):

Corporate Scorecard Notes

1. Client-reported actual and forecasted export sales of $132.9 million relates to sales resulting from an NSBI-related trade program. Clients reported actual export sales signed at the time of the event of $3.9 million. Clients were contacted again six months following the event and reported $14.6 million incremental sales and forecasted an additional $114.4 million sales for the following 18 months.
2. Target of 15 established, which includes successful transactions with partners and material amendments to existing clients that have a positive net economic benefit to the province. A total of 18 transactions completed. This includes ten loans, one guarantee, four equity investments and three material amendments to existing clients that have a positive net economic benefit to the province.
3. Average gross salary includes salary and benefits.
4. Consistent with industry reporting standards, NSBI's approach to reporting the creation and retention of payroll is to record the project, and the maximum potential payroll impact, in the fiscal year in which the project is authorized and accepted by the client.

   The maximum payroll impact from projects authorized in 2009/10 is calculated by adding the maximum potential payroll plus retained payroll. Actual client payroll from these projects would be determined in future years based on client results.

   Forecasted payroll from investment attraction clients are determined by the investment attraction projects authorized in 2009/10.

   Payroll impact from trade development clients are forecasted using a metric: one incremental job created for each $90,000 in incremental client-reported actual and forecasted export sales. The 24-month sales data reported by these clients is annualized and then further divided by $90,000 to estimate the job impact. To calculate payroll, the job figure is multiplied by the average per capita income in the province as reported by Statistics Canada. The assumption: each forecasted job created by trade development clients has a salary equivalent to the average per capita income in the province.

   Forecasted payroll from business financing and venture capital clients is determined by the business financing/venture capital projects authorized in 2009/10.

   The business advisory team reports the forecasted payroll impact from projects that have been referred to and completed through partner agencies, in which the team played a significant role by arranging financing or assisting with business planning, etc. The forecasted job and payroll impact is disclosed as reported by its clients.

   Payout eligibility under payroll rebate agreements is based on clients meeting minimum job creation targets.

   Included in the $135.4 million is the expected annual payroll (approximately $20 million) for DSME Trenton when fully operational. No funds were committed through NSBI; however, NSBI's business development team played a central project management role in the attraction, with our provincial and federal partners, of this investment over an 18-month period. This transaction is not included in NSBI's ROI measure because it forecasts the average portfolio return on investments using the Strategic Investment Fund (Payroll Rebates).

***Overall Performance: 2009–10**

	Forecasted Jobs		Forecasted Payroll
	Minimum (Min + Retained)	**Maximum** (Max + Retained)	(Max + Retained)
Investment Attraction	1,058	1,671	73,598,510
Trade Development	505	505	1,416,783
Business Financing	646	758	12,578,992
Venture Capital	73	185	9,072,000
Business Advisory	225	260	9,921,989
Total	**2,507**	**3,379**	**135,388,150**

NSBI Board of Directors

Due diligence and adherence to rigorous corporate governance guide the action of NSBI's private-sector board. Comprised of 13 respected business leaders from communities across Nova Scotia, the NSBI board provides guidance and governance for NSBI's business activities.

Including committee meetings, members of the board met more than 40 times in 2009/10 to:

- Oversee the corporate governance framework
- Review and approve quarterly and annual financial reports
- Oversee the strategic business planning process
- Identify and monitor major risks facing the corporation
- Monitor the integrity of the corporation's internal control systems
- Approve financial transactions within board limits

Chair & Vice Chair

Chair: **Douglas G. Hall**
Vice Chair: **J.D. (Jim) Eisenhauer**

Committees

The Audit, Human Resources Governance, and Investment Committees serve to assist the board in carrying out its responsibilities.

The Audit Committee oversees NSBI's financial reporting, assesses its internal controls and risk environment, and reviews the report prepared by the corporation's external auditor.

Chair: Nancy Tower Members: James A. Kehoe, Lawrence K. (Larry) Evans, Q.C., Janice Stairs

The Human Resources Governance Committee ensures appropriate human resource management policies are in place, manages the recruitment process for new board members, as well as develops and oversees NSBI's corporate governance principles.

Chair: Lois Dyer Mann Members: David Arenburg, Lawrence K. (Larry) Evans, Q.C.

The Investment Committee oversees NSBI's investment framework and policies, monitors the performance of the corporation's investment portfolio, and recommends financial transactions outside its approval limit to the full board for approval.

Chair: Sean Murray Members: J.D. (Jim) Eisenhauer, William A. Black, Stuart Rath, Scott Travers

Officers

Stephen Lund, President & Chief Executive Officer

Pat Ryan, Vice-President & Chief Operating Officer

Lisa Bugden, Vice-President, Marketing & Communications

NSBI Board of Directors (continued): In alphabetical order

David Arenburg (appointed November 2006)
President, Adcor Group of Companies, Yarmouth
Yarmouth Hospital Foundation, Former Chair
Junior Achievement Business Hall of Fame Board of Governors
SEASTAR Society of Nova Scotia, Director

William A. Black (appointed November 2006)
Former President and CEO, Maritime Life, Halifax
Bank of Canada, Lead Director
The Shaw Group Inc. Board of Directors
The Standard Life Assurance Company of Canada, Board Deputy Chair

J.D. (Jim) Eisenhauer, Vice Chair (appointed January 2005)
President, ABCO Group Limited, Lunenburg
Atlantic Industries Board of Directors
Composites Atlantic Board of Directors
Nova Scotia Power Inc. Board of Directors

Lawrence K.(Larry) Evans Q.C. (appointed November 2003)
Partner, Evans MacIsaac MacMillan, Port Hawkesbury
Nova Scotia Barristers' Society, Chair of Discipline Hearing Committee
Nova Scotia Barristers' Society, Past President
Port Hawkesbury Food Bank Society, Board Chair

Douglas G. Hall, Chair (appointed November 2003)
Former Managing Director, RBC Dominion Securities, Halifax
Claymore Investments Advisory Board
Millar Western Forest Products Board of Directors
Southwest Properties Advisory Board
Beacon Securities Advisory Board

James A. Kehoe (appointed November 2006)
President, Joneljim Group of Companies, Sydney
Cape Breton University Board of Governors
BCA Investments Co-op Board of Directors
YMCA Fundraising and Building Committee

Lois Dyer Mann (appointed December 2007)
Former Partner, Caldwell Partners, Halifax
2011 Canada Winter Games Host Society, Director and Chair of HR Committee of the Board
Halifax Chamber of Commerce, Former Chair
IWK Health Centre Foundation, Former Trustee

NSBI Board of Directors (continued): In alphabetical order

Sean Murray (appointed June 2007)

President and CEO, Advocate Printing and Publishing Company Limited, Pictou

Canadian Printing Industries Association, Former Chair

The Canadian Community Newspaper Database Corporation (ComBase), Chair

Aberdeen Hospital Foundation Board of Directors

Stuart Rath (appointed March 2007)

President and Director, Stuco Holdings Limited, Truro

Truro Centre Limited, Vice President

Erdene Resource Development Corp. Board of Directors

Janice Stairs (appointed September 2009)

Vice President, General Counsel & Secretary, Etruscan Resources Inc., Halifax

Bar Admissions Screening Committee, Past Member

Nova Scotia District Council of the Investment Dealers Association, Past Member

Admissions Committee of Dalhousie Medical School, Past Member

Ian Thompson (appointed January 2009)

Deputy Minister, Department of Economic and Rural Development, Halifax

InNOVAcorp Board of Directors

Trade Centre Limited Board of Directors

MT&L Public Relations, Former Partner

Halifax Chamber of Commerce, Former Board Chair

Nancy Tower (appointed October 2004)

Chief Financial Officer, Emera Inc., Halifax

QEII Hospital Foundation Board of Trustees

CAA Atlantic, Past Board Chair

Nova Scotia Institute of Chartered Accountants, Former President

Scott Travers (appointed June 2009)

President and COO, Minas Basin Pulp and Power Company Limited, Hantsport

Crown Fibre Tube, Director

Electrical Consumers Association of Nova Scotia, Founding Member

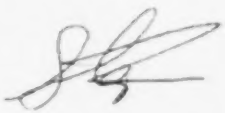
Management's Responsibility for Financial Reporting

The accompanying financial statements of Nova Scotia Business Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles and, if necessary, contain certain items that reflect best estimates and judgment of management. The integrity and objectivity of the data in these financial statements are management's responsibility. Management is responsible for ensuring that all information in the Annual Report is consistent with the financial statements.

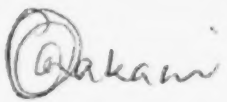
In support of its responsibility, management has developed and maintains financial and management control systems and practices to provide reasonable assurance that transactions are properly authorized and recorded, that financial information is reliable, that the assets are safeguarded and liabilities recognized, and that the operations are carried out effectively.

The Board of Directors' Audit Committee, comprised of non-management directors, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management, compliance & risk management, and the independent auditors to review internal accounting controls, audit results, accounting principles and practices, and to review and approve the financial statements.

These financial statements have been audited by the corporation's external auditors, KPMG LLP, and their report is presented herein.



Stephen Lund
President and
Chief Executive Officer



Ferdinand Makani, MBA, CMA
Controller

Auditors' Report

To the Directors of Nova Scotia Business Inc.

We have audited the balance sheet of Nova Scotia Business Inc. as at March 31, 2010 and the statements of revenue, expenditures and retained earnings, comprehensive income, changes in shareholder's equity, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Halifax, Canada
May 21, 2010

Balance Sheet

Year ended March 31, 2010, with comparative figures for 2009

(in thousands of dollars)

	2010	2009
Assets		
Current assets:		
Cash	$ 15,178	$ 11,440
Accrued interest receivable	1,737	2,452
Due from the Province of Nova Scotia	9,657	11,385
Current portion of loans receivable (note 3)	6,758	5,816
Other receivables	789	766
	34,119	31,859
Nova Scotia Business Fund assets:		
Loans receivable (note 3 and 7)	80,111	83,496
Equity investments (note 4 and 7)	29,080	17,962
Industrial parks and malls (note 5)	2,076	2,604
	111,267	104,062
	$ 145,386	$ 135,921
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 15,757	$ 14,646
Provision for payment of guarantees (note 7)	2,900	2,934
Dividend payable	1,915	–
Principal due within one year to the Province of Nova Scotia (note 8)	10,188	12,545
	30,760	30,125
Long-term debt:		
Due to the Province of Nova Scotia (note 8)	91,186	82,594
Shareholder's equity:		
Retained earnings	23,430	24,678
Accumulated other comprehensive income (loss)	10	(1,476)
	23,440	23,202
Commitments (note 10)		
Contingencies (note 11)		
	$ 145,386	$ 135,921

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

Statement of Revenue, Expenditures and Retained Earnings

Year ended March 31, 2010, with comparative figures for 2009

(in thousands of dollars)

	2010	2009
Revenue:		
Provincial grants:		
Operating grant	$ 10,905	$ 11,405
Strategic investment grant	12,604	10,557
Loan valuation allowance	2,100	1,600
Gateway initiative grant	49	172
Interest on loans receivable	6,889	6,289
Other investment income	344	924
Gain on sale of property	1,515	35
Miscellaneous	2,321	1,910
	36,727	32,892
Expenses:		
Operating expenses (Schedule)	12,626	12,367
Strategic investments	12,604	10,557
Allowance for credit losses and provision for payment of guarantees	4,404	5,899
Nova Scotia Business Fund expenses (Schedule)	6,426	6,157
	36,060	34,980
Excess of revenue over expenditures	667	(2,088)
Retained earnings, beginning of year	24,678	26,766
Less: Dividend to shareholder	(1,915)	–
Retained earnings, end of year	$ 23,430	$ 24,678

See accompanying notes to financial statements.

Statement of Comprehensive Income

Year ended March 31, 2010, with comparative figures for 2009

(in thousands of dollars)

	2010	2009
Net income	$ 667	$ (2,088)
Other comprehensive income (loss):		
Change in unrealized gains on available-for-sale securities	1,486	(2,312)
	$ 2,153	$ (4,400)

Statement of Changes in Shareholder's Equity

Year ended March 31, 2010, with comparative figures for 2009

(in thousands of dollars)

	2010	2009
Share capital (note 9):		
Authorized:		
100 Class A common shares with a par value of $1 each		
Issued and outstanding to the Province of Nova Scotia:		
100 common shares	$ -	$ -
Retained earnings	23,430	24,678
Accumulated other comprehensive income (loss):		
Balance beginning of year	(1,476)	836
Other comprehensive income (loss) for the year	1,486	(2,312)
Balance at end of year	10	(1,476)
Total Shareholder's Equity	$ 23,440	$ 23,202

See accompanying notes to financial statements.

Statement of Cash Flows

Year ended March 31, 2010, with comparative figures for 2009

(in thousands of dollars)	2010	2009
Cash provided by (used in):		
Operations:		
Excess of revenue over expenditures	$ 667	$ (2,088)
Items not involving cash:		
Amortization	114	120
Allowance for credit losses and provision for payment of guarantees	4,404	5,899
Capitalized interest on loans receivable	(1,136)	37
Gain on sale of property	(1,515)	(35)
Loan valuation allowance – due from the Province of Nova Scotia	(2,100)	(1,600)
Change in non-cash operating working capital:		
Decrease (increase) in accrued interest receivable	715	(776)
Decrease (increase) in due from the Province of Nova Scotia	1,728	(285)
Increase in other receivables	(23)	(78)
Increase (decrease) in accounts payable and accrued liabilities	1,111	(1,536)
Increase in dividend payable	1,915	–
	5,880	(342)
Financing:		
Dividends	(1,915)	(1,190)
New borrowings from the Province of Nova Scotia	15,905	5,047
Principal repayments to the Province of Nova Scotia	(7,648)	(10,000)
	6,342	(6,143)
Investments:		
Loan advances	(7,635)	(5,112)
Principal received on loans	7,763	7,085
Equity investments	(10,756)	(5,742)
Proceeds from disposal of Industrial Parks	1,915	37
Capital adjustments (additions)	13	(147)
Principal received on convertible debentures	216	–
	(8,484)	(3,879)
Increase (decrease) in cash	3,738	(10,364)
Cash, beginning of year	11,440	21,804
Cash, end of year	$ 15,178	$ 11,440

See accompanying notes to financial statements.

Nova Scotia Business Inc. (the "Corporation") is a corporation, wholly-owned by the Province of Nova Scotia with an independent Board of Directors. The Corporation was established pursuant to the Nova Scotia Business Incorporated Act, Chapter 30 of the Acts of Nova Scotia, 2000. The Corporation's mission is to deliver client-focused business solutions that result in sustainable, value-added economic growth for Nova Scotia. The Corporation is not subject to provincial or federal taxes.

1. Summary of significant accounting policies:

(a) Loans receivable:

Loans receivable are recorded at amortized cost less a general allowance for credit losses equal to 5% of cost. A specific allowance is recorded if management considers it necessary to reduce the loan to its estimated recoverable amount.

(b) Equity investments:

Equity investments in publicly traded companies are recorded at fair market value. Equity investments with limited market information available are recorded either at: 1) value determined by a specific valuation method or, 2) cost less a general allowance for credit losses equal to 10% of cost. This allowance or the difference between valuation and cost amount reflects the risk associated with equity investments. The cost approach is used in cases whereby the valuation result is higher than book value but the increase is considered temporary or in cases where there is no available data to perform any form of a valuation approach. The investments are reviewed twice yearly for potential declines in value.

(c) Industrial parks and malls:

The industrial parks and malls consist of properties held for sale and improved properties consisting of land and land improvements, buildings, wharves, and utilities. Land is recorded at the lower of cost and estimated net realizable value. The remaining assets are recorded at cost and amortized on a declining balance basis over follows:

Asset	Basis	Rate
Land improvements	Declining balance	5%
Industrial malls and other buildings	Declining balance	5%
Wharves	Declining balance	5%
Utilities	Declining balance	4 – 15%

The Department of Transportation and Infrastructure Renewal has operational responsibility for the industrial parks and malls. Certain revenues and expenses associated with the operation of the industrial parks and malls are accounted for by the Department of Transportation and Infrastructure Renewal and are not reflected in these financial statements.

Proceeds from the sale of assets less closing costs are remitted to the Province of Nova Scotia in the form of dividends. In 2010, the dividend payable was $1,915 (2009 - $nil).

1. Summary of significant accounting policies (continued):

(d) Other assets:

Other assets consist of property acquired through foreclosure. Other assets are recorded at cost less a general allowance for credit losses equal to 5% of cost. A specific allowance is recorded if management considers it necessary to reduce the asset to its estimated recoverable amount.

(e) Due to the Province of Nova Scotia:

Amounts due to the Province of Nova Scotia are recorded at amortized cost.

(f) Other comprehensive income (loss):

Comprehensive income (loss) is composed of the Corporation's net income and other comprehensive income. Other comprehensive income (loss) includes unrealized gains and losses on available-for-sale investments. All of the Corporation's publicly traded equity investments have been recorded as available for sale and this has resulted in an increase of $1,486 to opening accumulated other comprehensive income (loss).

(g) Revenue recognition:

Interest revenue on loans receivable is recognized on an accrual basis unless the ultimate collectability of the loan is in doubt. When a loan is classified as impaired, interest revenue is no longer recognized, and any interest income that is accrued is reversed. A loan is considered impaired when there is risk of loss to the Corporation of the full and timely collection of principal and interest; generally, when it is more than three months in arrears. In the event a loan is no longer considered to be impaired, interest revenue is recognized in the year of recovery.

(h) Allowance for credit losses and provision for payment of guarantees:

As financing is advanced, the Corporation immediately records a general allowance equal to 5-10% of the amount disbursed. The Corporation provides for possible credit losses on an item-by-item basis by examining such factors as the client's financial condition and the fair value of the underlying security.

The provision for credit losses is partially offset by a loan valuation allowance from the Province of Nova Scotia.

(i) Employee future benefits:

Upon retirement, employees are eligible for a public service award equal to one week's salary per year of service to a maximum of twenty-six years. Management recognizes compensation expense on an accrual basis.

(j) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

2. Change in accounting policy:

In June 2009, the CICA amended Section 3862, *Financial Instruments - Disclosures*, to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments are effective for the Corporation for the year ended March 31, 2010.

As required by the transitional provisions, these new standards have been restatement of prior period amounts.

3. Loans receivable:

	2010	2009
(a) Principal due:		
Performing loans	$ 106,885	$ 106,903
Impaired loans	16,706	16,521
	123,591	123,424
Allowance for credit losses (note 7)	36,722	34,112
	86,869	89,312
Less current portion	6,758	5,816
	$ 80,111	$ 83,496

Included in the 2009 figures was a loan receivable with concessionary terms which had a principal amount outstanding of $61 and concessionary allowance of $6 and it was paid out in fiscal 2010. The concessionary terms consisted of interest-free financing.

4. Equity investments:

	2010	2009
Common shares	$ 12,327	$ 7,212
Preferred shares	22,748	14,042
Convertible debentures	9,561	10,722
	44,636	31,976
Allowance for credit losses (note 7)	15,556	14,014
	$ 29,080	$ 17,962

5. Industrial parks and malls:

			2010	2009
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 143	$ –	$ 143	$ 223
Land improvements	–	–	–	16
Industrial malls and other buildings	1,750	1,101	649	992
Wharves	2,527	1,606	921	969
Utilities	458	95	363	404
	$ 4,878	$ 2,802	$ 2,076	$ 2,604

6. Other assets:

	2010	2009
Property acquired through foreclosure, at cost	$ 822	$ 822
Less allowance for credit losses (note 7)	822	822
	$ –	$ –

7. Allowance for credit losses and provision for payment of guarantees:

	Gross balance outstanding	Specific allowance	General allowance	Total allowance	2010 Net balance outstanding
Loans receivable (note 3)	$ 123,591	$ 32,593	$ 4,129	$ 36,722	$ 86,869
Equity investments (note 4)	44,636	13,218	2,338	15,556	29,080
Guarantees (note 11)	2,900	2,900	–	2,900	–
Other assets (note 6)	822	822	–	822	–
	$ 171,949	$ 49,533	$ 6,467	$ 56,000	$ 115,949

	Gross balance outstanding	Specific allowance	General allowance	Total allowance	2010 Net balance outstanding
Loans receivable (note 3)	$ 123,424	$ 29,670	$ 4,442	$ 34,112	$ 89,312
Equity investments (note 4)	31,976	12,193	1,821	14,014	17,962
Guarantees (note 11)	3,534	2,934	–	2,934	600
Other assets (note 6)	822	822	–	822	–
	$ 159,756	$ 45,619	$ 6,263	$ 51,882	$ 107,874

During the year, investments in the amount of $286 (2009 - $3,751) were written off and included in the allowance for credit losses and provision for payment of guarantees.

8. Due to Province of Nova Scotia:

(a) Notes payable to the Province of Nova Scotia are comprised of the following:

			2010	2009
	Fiscal year of maturity	Weighted average interest rate	Principal outstanding	Principal outstanding
Note payable 2002-01	-	-	$ 29,504	$ 33,889
Note payable 2002-02	2022	5.31% - 6.75%	32,424	34,340
Note payable 2003-01	2009	4.85%	-	29
Note payable 2003-03	2012	5.02%	68	119
Note payable 2003-04	2014	5.35%	454	586
Note payable 2003-05	2011	5.44%	145	424
Note payable 2004-01	2017	4.64%	1,259	1,801
Note payable 2004-02	2015	3.41% - 4.55%	3,448	4,092
Note payable 2005-01	2011	4.23%	1,013	1,213
Note payable 2005-02	2014	3.82%	270	491
Note payable 2006-01	2027	5.09%	1,474	1,561
Note payable 2006-02	2027	4.98%	1,877	1,984
Note payable 2006-03	2027	4.86%	3,044	3,218
Note payable 2006-04	2027	4.94%	2,101	2,222
Note payable 2007-01	2027	5.11%	947	1,001
Note payable 2007-02	2027	4.89%	959	1,014
Note payable 2007-03	2027	4.97%	409	432
Note payable 2007-04	2027	5.01%	78	83
Note payable 2007-05	2027	5.38%	1,367	1,444
Note payable 2007-06	2027	5.58%	142	150
Note payable 2008-01	2017	4.05%	908	1,000
Note payable 2008-02	2015	0.99% - 3.70%	3,746	4,046
Note payable 2009-01& 2009-06	2012	1.60%	640	-
Note payable 2009-02	2027	3.18%	872	-
Note payable 2009-03	2014	2.30%	650	-
Note payable 2009-04	2013	2.12%	265	-
Note payable 2009-05	2014	2.17%	1,500	-
Note payable 2009-07	2014	2.53%	400	-
Note payable 2009-08	2020	4.12%	1,050	-
Note payable 2009-09	2013	1.76%	197	-
Note payable 2009-10	2015	3.184%	5,996	-
Note payable 2009-11	2015	3.181%	735	-
Note payable 2009-12	2015	3.181%	1,009	-
Note payable 2009-13	2015	3.173%	277	-
Note payable 2009-14	2015	2.93%	350	-
Note payable 2009-15	2015	3.164%	151	-
Note payable 2009-16	2015	3.148%	1,145	-
Note payable 2009-17	2015	3.349%	200	-
Note payable 2009-18	2014	2.80%	300	-
			101,374	95,139
Less principal due within one year			10,188	12,545
			$ 91,186	$ 82,594

8. Due to Province of Nova Scotia (continued):

The principal for note 2002-01 is repayable to the Province when the principal is collected from the loans that are funded by this note. In addition, 80% of the interest received or capitalized on the underlying loans is repayable to the Province.

As at March 31, 2009, the principal for notes 2008-01 and 2008-02 had no set terms of repayment. The repayment terms for these notes payable were settled in fiscal 2010. Note payable 2008-02 now consists of a series of twelve notes payable with different interest rates and maturity dates.

The remaining notes are repayable in quarterly instalments of principal and interest based on the maturity dates and rates set out above.

(b) Principal payments due in each of the next five years are as follows:

2011	$ 10,188
2012	9,780
2013	8,324
2014	7,897
2015	16,572

In 2015, there are no set repayment terms for eight notes payable relating to equity financing, in the amount of $9,513.

9. Share capital:

The Corporation is authorized to issue 100 Class A common shares with a par value of $1 each. At year-end, 100 common shares have been issued to the Province of Nova Scotia.

10. Commitments:

(a) The Corporation has approved financing of $4,690 (2009 - $6,059) that is undisbursed at year-end.

(b) The Corporation administers strategic investments on behalf of the Province of Nova Scotia that permit approved businesses to receive a percentage of payroll taxes paid as a rebate. Expenses incurred by the Corporation are match-funded by the Province of Nova Scotia in the form of a Strategic Investment Grant. As at March 31, 2010, transactions were approved with maximum annual payments over the next six years of $113.7 million (2009 - $130.1 million) as shown below.

2011	$ 31,282
2012	32,255
2013	24,074
2014	18,977
2015	5,939
2016	1,176
	$ 113,703

11. Contingencies:

(a) Guarantees:

	Authorized	2010 Utilized	2009 Utilized
Bank loans	$ 8,900	$ 2,900	$ 3,534
Less provision for payment		2,900	2,934
		$ -	$ 600

Included in the above guarantees is a term loan in the amount of $2,500 (2009 - $3,134) that has been demanded but not yet settled and a guarantee of a line of credit in the amount of $400. Both guarantees will expire in 2011.

The term loan guarantee of $2,500 which has been demanded is partially secured by $200 of various assets and proceeds from liquidation. Subsequent to year end, the Corporation has paid the $2,300 owing on the term loan guarantee.

(b) Litigation:

The Corporation is a co-defender with the Province of Nova Scotia and Industrial Estates Limited in a dispute regarding environmental contamination on land previously owned by Industrial Estates Limited. It is assumed that any losses incurred related to this claim will be fully funded by the Province of Nova Scotia.

The Corporation is unable to form an opinion in regard to the likelihood of loss arising from the above litigation. Consequently, no provision for any possible loss has been recorded in these financial statements.

In addition, there are other outstanding claims against the Corporation for events that have arisen in the normal course of carrying on the operations of the Corporation. It is not possible at this time to determine the amount that may be assessed, or the impact to the Corporation's financial statements, with respect to these claims.

(c) The Corporation completed a transfer agreement with the Municipality of the County of Colchester in fiscal 2008, which included a water system. The system has undergone GUDI (Groundwater Under the Direct Influence of Surface Water) testing. Of the three wells tested, two were non-GUDI. As a result of the third well being determined as GUDI, the Corporation will likely have to contribute additional funds to be used for water treatment. It is not known the extent of the liability that exists at the year end.

(d) The Corporation is currently undertaking an actuarial assessment of the public service award liability. Any adjustment to amounts currently accrued will be recorded in future years.

12. Financial instruments:

(a) Fair value

The fair values of accrued interest receivable, due from the Province of Nova Scotia, other receivables, and accounts payable and accrued liabilities approximate their fair value because of their short term-to-maturity. The fair value of loans receivable and due to the Province of Nova Scotia has been calculated using future cash flows (principal and interest) at current market rates available to the Corporation for the same or similar instruments.

The fair value and book value, excluding any reserves, of loans receivable as at March 31, 2010 are $101,903 and $117,940 (2009 - $108,249 and $120,254) respectively. Certain notes receivable in the amount of $5,651 (2009 - $3,170) have no set terms of repayment and are carried on the financial statements at cost.

Equity investments in publicly-traded companies in the amount of $3,062 (2009 - $1,575) are recorded at fair market value, which represents the last bid price for the stock on the stock exchange. Equity investments in privately held companies in the amount of $26,018 (2009 - $16,387) are carried at cost less allowances in the financial statements. Due to the limited amount of comparable market information available, it was not practical to determine the fair value of these assets.

There are loan guarantees and other assets that represent investments and guarantees in privately held companies, as well as property acquired through foreclosure. Due to the limited amount of comparable market information available, it was not practical to determine the fair value of these assets. These assets are carried on the financial statements at cost.

The amount due to the Province of Nova Scotia is comprised of a series of separate notes. The fair value and book value of the amounts due to the Province of Nova Scotia with scheduled repayment terms as at March 31, 2010 are $67,149 and $62,357 (2009 - $67,076 and $56,204), respectively. Notes payable in the amount of $39,017 (2009 - $38,935) have no set terms of repayment and are carried on the financial statements at cost. The principal on these notes are repaid to the Province as it is collected on the loans receivable financed by these notes. Due to the volume of accounts financed by these notes and the uncertainty with respect to timing of future cash flows, it is not practical to determine the fair value of this amount due to the Province of Nova Scotia.

The fair values of the loans receivable and the amount due to the Province of Nova Scotia are determined using Canadian bond market conventions.

12. Financial instruments (continued):

The yield to maturity curve by month for the Corporation was estimated using the following assumptions:

(i) The risk-free interest rate for each specified maturity term equal to the relevant benchmark Canada yield by term (Canada yield).

(ii) The Province of Nova Scotia credit spread relative to the Canada yield for each specified maturity term to reflect the Nova Scotia cost of funds as provided by CIBC World Markets.

(iii) The Corporation's credit spread relative to the Province of Nova Scotia credit spread for each specified maturity term based on a Memorandum of Understanding between the Nova Scotia Department of Finance and the Corporation respecting the borrowings of the Corporation.

The Corporation's yield to maturity on an annual basis for specified maturity terms is determined as the sum of the Canada yield, the Nova Scotia credit spread and the Corporation's credit spread. These inputs were used to determine the Corporation's yield to maturity curve by month.

Fair value measurements recognized in notes 3 and 4 are categorized using the fair value hierarchy that reflects the significance of inputs used in determining the fair values.

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for assets and liabilities that are not based on observable market data.

The fair value of the public equities $3,062 (2009 - $1,575) has been categorized as Level 1, while all other financial instruments have been categorized as Level 2.

The following table illustrates the classification of the Corporation's financial instruments using the hierarchy as at March 31, 2010:

12. Financial instruments (continued):

	Level 1	Level 2	Undeterminable	Total
Assets:				
Cash	15,178	–	–	15,178
Accrued interest receivalbes	1,737	–	–	1,737
Due from the Province of Nova Scotia	9,657	–	–	9,657
Other receivalbes	789	–	–	789
Loans receivable	–	117,940	5,651	123,591
Equity	3,062	41,574	–	44,636
Liabilities:				
Accounts payable	15,757	–	–	15,757
Provision for payment of guarantees	2,900	–	–	2,900
Dividend payable	1,915	–	–	1,915
Due to the Province of Nova Scotia	–	62,357	39,017	101,374

(b) Associated Risks

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. The Corporation's Nova Scotia Business Fund assets are primarily exposed to credit, interest rate, market price and liquidity risk.

(i) Credit risk:

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Corporation. To mitigate this risk, the Corporation has developed the following policies:

Before financing is approved, a risk assessment is performed on the client. Each application is designated a risk rating based on the industry and business, quality of management, financial history and projections, the level of other creditor involvement and shareholder participation, and environmental risks. The terms and conditions of the approved financing are reflective of the assessed risk. Applications with unacceptable levels of risk are not approved.

Clients are usually limited to a total of $15 million in financing from Nova Scotia Business Incorporated's Nova Scotia Business Fund. Three clients have exceeded this total in the past; two loans

12. Financial instruments (continued):

were approved in the Nova Scotia Business Development Corporation Fund and transferred to the Nova Scotia Business Fund via legislation on November 6, 2001. The outstanding amounts for these clients are approximately $32,222 and $24,760, respectively (2009 - $34,098 and $26,808). A third client, currently has an outstanding balance of $14,322 which is now below the $15,000 financing limit threshold (2009 - $14,233 and $2,760 of authorized but unutilized funding was still available).

The risk rating for all clients is monitored on an on-going basis. Clients identified as higher risk are further assessed at year end to determine the extent of the potential loss, taking into account the value of the security pledged in support of the financial assistance. This assessment could result in a reduction in the carrying value of the investment via the provision for credit losses.

(ii) Interest risk:

Interest rate risk is the risk that the market value of the Corporation's investments and debt will fluctuate due to changes in market interest rates. Interest rate risk is mitigated due to the fact that the Corporation matches the repayment timing of amounts borrowed with the repayment timing of financing advanced as closely as practical. It is management's opinion that the Corporation is not exposed to significant interest rate risk arising from financial instruments.

(iii) Market price risk:

Market price risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument, its issuer or factors affecting all similar financial instruments traded in the market. At year end, the Corporation held $3,062 (2009 - $1,575) in publicly traded equities. As these equities are carried at fair value with fair value changes recognized in the statement of comprehensive income, all changes in market conditions will directly result in an increase (decrease) of other comprehensive income (loss).

(iv) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity requirements are managed through the receipt of provincial grants, income generated from the loans receivable and equity investments, and principal repayments received on the loans receivable. These sources of funds are used to pay operating expenses and debt service payments to the Province of Nova Scotia. In the normal course of business the Corporation enters into contracts that give rise to commitments for future payments which may also impact the Corporation's liquidity. The Corporation also maintains cash on hand for liquidity purposes and to pay accounts payable and accrued liabilities.

13. Nova Scotia Business Fund:

The Nova Scotia Business Fund (the "Fund") is comprised of investments approved under the direction and management of Nova Scotia Business Incorporated ("NSBI") and investments have been transferred from the Nova Scotia Business Development Corporation Fund ("NSBDC") on November 6, 2001. The following is a summary of the Fund as at March 31.

					2010	2009
	NSBI Portfolio		NSBDC Portfolio			
	Gross	Less allowance for credit losses	Gross	Less allowance for credit losses	Net total	Net total
Assets:						
Loans receivable	$ 32,451	$ 12,323	$ 91,140	$ 24,399	$ 86,869	$ 89,312
Equity investments	32,106	7,867	12,530	7,689	29,080	17,962
Industrial parks and malls	–	–	2,076	–	2,076	2,604
Other assets	–	–	822	822	–	–
Guarantees	2,900	2,900	–	–	–	600
Financing authorized but unadvanced	4,690	–	–	–	4,690	6,059
	$ 72,147	$ 23,090	$ 106,568	$ 32,910	$ 122,715	$ 116,537

	2010	2009
Funding authorized and committed:		
Fund balance authorized, net of write offs	$ 253,083	$ 253,372
Less: uncommitted balance of fund	74,368	84,953
Committed fund balance	178,715	168,419
Less allowance for credit losses and provision for payment of guarantees	56,000	51,882
	$ 122,715	$ 116,537

14. Capital risk management:

The main objective of the Corporation is to expand business activity in Nova Scotia in five main areas: trade development, business advisory services, business financing, venture capital and investment attraction. The Corporation carries out its programs in conjunction with the funding allocated to it by the Province of Nova Scotia. During the year, the long-term debt increased (decreased) by $6,235 (2009 - $(6,500)).

15. Supplementary cash information:

Cash is defined as cash and short-term investments.

During the year, cash received for interest income was $6,419 (2009 - $6,216) and cash paid for interest was $5,247 (2009 - $7,946).

During the year, dividends in the amount of $nil (2009 - $1,190) were paid.

Non-cash investing activities	2010	2009
Equity market adjustments recorded as other comprehensive income	$ 1,486	$ (2,312)

16. Related party transactions:

Financing has been advanced to companies which were controlled or otherwise not independent of certain directors of Nova Scotia Business Inc. These investments totaled $45,216 (2009 - $38,142) and certain of these investments have specific allowances recorded against them totaling $7,779 (2009 - $7,490). Furthermore, payroll rebates in the amount of $4,677 (2009 - $4,515) were awarded to one or more of these companies.

These transactions were carried out in the normal course of operations and on terms and conditions that would be similar to those of non-related parties.

The Corporation occupies premises for which no rental fee is charged by the shareholder. Management estimates the annual cost to lease the premises is approximately $679 (2009 - $674).

The Corporation receives legal services for which no fee is charged by the shareholder. Management estimates the annual cost of these services is approximately $268 (2009 - $215).

17. Employee pension plan:

Employees of the Corporation participate in the Public Service Superannuation Fund (the "Plan"), a contributory defined benefit pension plan administered by the Province of Nova Scotia, which provides pension benefits based on length of service and earnings. Contributions to the Plan are required by both the employees and the employer. Total employer contributions for 2010 were $538 (2009 - $451) and are recognized as an expense in the year. The Corporation is not responsible for any under-funded liability, nor does the Corporation have any access to any surplus that may arise in this Plan.

18. Comparative figures:

Certain 2009 comparative figures have been reclassified to conform with the financial presentation adopted per the current year.

Schedule of Operating Expenses

(in thousands of dollars)
Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
Business development	$ 3,109	$ 3,474
Gateway initiative expenses	753	172
Legal and audit	18	125
Office expenses	450	506
Other	148	139
Salaries and benefits	6,997	6,450
Telecommunications and technical support	478	525
Travel	673	976
	$12,626	$12,367

Schedule of Nova Scotia Business Fund Expenses

(in thousands of dollars)
Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
Amortization	$ 114	$ 120
Commissions	19	1
Interest	5,926	5,658
Legal	–	1
Repairs and maintenance	367	377
	$ 6,426	$ 6,157

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Nova Scotia Business Inc.

Opportunity. Growth. Prosperity.

Nova Scotia Business Inc. is Nova Scotia's private-sector-led business development agency. NSBI is the investment attraction arm of the province and helps businesses in Nova Scotia meet growth potential through advisory services, trade development, financing and venture capital.

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